

Japan All Cap Q1 investment update

April 2025

Investment manager Matthew Brett and investment specialist Sarah Clark give an update on the Japan All Cap strategy covering Q1 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Sarah Clark (SC): Welcome to this update for Japan All Cap. My name is Sarah Clark and I'm an investment specialist and I'm joined today by portfolio manager, Matthew Brett. As a reminder, this strategy is looking to invest in some of Japan's best growth companies. And we do that by taking a flexible approach to growth and constructing a portfolio of roughly 45 to 65 names across the market cap range. Now the plan for today is to give you an update on performance, positioning and also share our thoughts on outlook for the year ahead.

Welcome, Matt.

Matthew Brett (MB): Hi, Sarah.

SC: So let's start with performance. Numbers were good for the first quarter, roughly 3 per cent ahead. Most importantly, this has now pushed our 12-month number ahead as well, which I think is a really good outcome given the turmoil we're seeing across global markets just now. So what were the main drivers of performance this quarter?

MB: Yeah, well, a number of the Internet businesses in the portfolio performed well over the quarter. So names like GMO Internet and M3 and CyberAgent. And these generally had good results and they were rewarded by the market. We also saw Nintendo do well and that's probably driven by excitement about the new Switch that's coming. And finally, we don't have a holding in Toyota Motor, which is a big part of the index and that had a difficult quarter.

SC: OK, some good progress there. A big question which will be on clients' minds is tariffs. It's obviously dominating the headlines. Japan will be impacted. What's your initial reaction to all of this?

MB: Well, look, I mean, I think these tariffs are big. And I think this is a genuinely significant development. Prior to these tariffs being introduced recently, we had tariffs on imports to America being in the low single digit per cent, perhaps a couple of percent. And adding on the recent announcements, that is going up to something in the mid-20s per cent. So this is really very, very large. And it's of the scale that's difficult for companies to just absorb and to cope with in some cases.

And related to that, we're obviously starting to see the response coming. So China now has added big tariffs on America in retaliation. And the danger with all of this from a Japan perspective is that the global economic pie as a whole just shrinks, and Japan suffers as a consequence of that. And obviously, within Japan, there are some areas which are more exposed than others. The more cyclical types of businesses, particularly, for example, the car industry, look particularly in a difficult place with regard to what's been announced.

SC: And what about at a portfolio level? What do you think the impact might be there?

MB: Well, at the portfolio level, fortunately, we're not so exposed to this type of challenge. So the portfolio, the biggest overweights in the portfolio are things like information and communication and services. And these areas are just not as vulnerable to tariffs. And on the other hand, the biggest underweights in the portfolio are the car industry, where we don't have any holdings at all in cars within the portfolio. Also trading companies, which are just quite cyclical businesses. And we're also underweight the banks.

So overall, the portfolio is both less cyclical than the wider market and also it's a bit less exposed to the US because we don't have any holdings in the car companies. So I think relatively it's strongly positioned.

SC: And on the car companies, what do you think the direct impact of tariffs are going to be for them?

MB: Well, I think it just, to be honest, adds to the long list of challenges facing that sector. Recently, we also had announcements from BYD, the big Chinese automaker, that they're going to have autonomous driving introduced as standard across their range. Also, that they're going to give you hundreds of miles of range on a five-minute charge with an electric vehicle.

And these kind of changes just make the Japanese car companies seem increasingly like they're making the cars of the past rather than the future. And then you add tariffs into the list of problems. So I think, you know, it's very company specific in terms of where their production and their sales are precisely located, but I think at a broad level it just adds to the list of challenges facing the sector.

SC: I guess it is an uncertain market backdrop at the moment but it does sound like the portfolio is in a resilient position given that domestic tilt and also that it's much less cyclical in comparison to the index. I also wanted to ask you about SoftBank because obviously it's our largest position and there has been some recent developments there. Can you talk us through those?

MB: Yeah, I mean, I think SoftBank just continues to develop in a really exciting way. And frankly, it's probably the most obvious AI play globally now. And Mr. Son has done what he's done in the past of trying to get into a new industry. So he already owns 90 per cent of Arm, but he's also acquired Ampere, which does GPU type solution, a bit different to NVIDIA, but exposed to that area. They're going to be investing heavily in data centres through the Stargate project. And recently they've announced that they're going to be investing a large amount of money in OpenAI directly. And OpenAI is the maker of ChatGPT, the leading large language model.

So basically, they seem to have now across the whole spectrum of AI from chips to data centers to large language models and to businesses that use AI through the Vision Fund. And it reminds me a bit actually of Alibaba in the past, when Mr. Son saw the huge potential in Chinese e-commerce, and got in early and got in big and made a lot of money from that. So I think, you know, yeah, very exciting times for Softbank.

SC: Lots going on there. OK, so changing direction now. Turnover remains low for the portfolio. We've added one new name this quarter, which was Nakanishi. Can you tell us about that company?

MB: So Nakanishi is a family-run manufacturer of dental equipment, specifically handsets for drilling teeth. And this is an area that's both very resilient, and it's also an area that's a growing area as people age and your teeth get worse. And they're particularly strong at the moment in Europe and Japan, but they've got a global portfolio of positions. And over time, you know, we think this is one of these companies just with a really solid competitive position and a very long growth runway ahead, as they're able to push over time into new geographies and benefit from that ageing population.

SC: OK, final question for me. So we've spoken a lot today about the uncertainty of the market backdrop, but what's giving you optimism at the moment for the future?

MB: Well, look, I mean, the world is always uncertain, and we know that. And maybe this week it's been particularly clear just how uncertain it is with all this tariff news. But the reality is that underneath the surface, the companies that can grow their sales and their profits more over the longer term tend to do better.

And that's what our portfolio is focused on. And looking at the projected earnings growth of the portfolio versus that of the market, the gap between the two has actually been increasing recently. And that's the kind of thing that makes me just very excited.

SC: Thank you. I think that's a very positive note to finish on. So to recap the main points from today, it's very encouraging to see that improvement in performance. And given recent market developments, we think the portfolio is in a good position to cope in this environment. Thank you to everybody for watching today. If you do have any questions, please do get in touch.

Japan All Cap Strategy

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Japanese Equities All Cap Composite	59.2	-12.2	-11.3	11.0	-0.7
TOPIX Index	38.9	-7.2	-3.5	24.3	-0.4

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
Japanese Equities All Cap Composite	-0.7	6.4	4.9
TOPIX Index	-0.4	9.0	5.7

Source: Revolution, Japan Exchange Group. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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